

Speech - Londonderry Chamber of Commerce Business Lunch – Thursday 11th September 2008

Good afternoon, and thank you very much [Ian] for extending the invitation to speak to your Chamber today. It is good to be back in the historic city of Londonderry – the city of my birth.

You've asked me along today to talk about the economic climate and the prospects for the region. Could there be a more daunting challenge?

There appears to be a growing sense of crisis; certainly an absence of confidence in both the global economy and the national economy. This probably makes it ever more pressing for us to have a sense of what confronts Northern Ireland. If we are not realistic about the economic challenges facing us we cannot begin to put the right policy interventions in place.

Growing the Northern Ireland economy as a whole is one of my key priorities and is at the very heart of the Executive's Programme for Government. It is highly significant that there was unanimous agreement within the Executive that economic development should be our number one priority.

Growing the economy, increasing productivity and improving prosperity is the key to improving the lives and living standards of the citizens of Northern Ireland. This challenge was always going to be difficult but the rapid deterioration in the global and national economic outlook makes it ever more imperative that we have a clear view of what economic policies are needed.

The challenges confronting the Northern Ireland economy are also replicated at sub-regional level. That is why I welcome the opportunity to address you today and set out where our economic focus should be for the coming years.

A cursory analysis of the key economic statistics for the Northern Ireland economy suggests that we have performed remarkably well over the last decade. Historically we were lagging behind the rest of the UK in our labour market performance. Yet we now have an unemployment rate significantly below the UK average as well as the highest growth in employment in any UK region over recent years – a long way from the blighted economic environment of past decades.

But in some ways these statistics are misleading. There remain deep-seated underlying structural weaknesses within the Northern Ireland economy. Our productivity performance is extremely poor. We haven't, in any way, converged with the UK GVA per capita average over the last decade. And we remain therefore still some 20 percent behind the UK average in terms of per capita incomes.

The fundamental problem is that while we have been successful at creating new jobs – these jobs have been predominantly in the sectors which don't provide a robust platform for wealth generation in the long term. We are all

aware of the significant growth in retailing, distribution and tourism, but these tend to be low value-added, low-paying insular jobs.

So we need urgently to change the focus of economic development policy. We need better jobs, not just more jobs. This is why the Executive has recently been pushing the importance of developing a high value added sector like financial services so hard.

But creating better jobs rather than simply more jobs requires progress on a number of policy fronts.

We need to find new economic opportunities and provide the right skills for the new jobs that will be created by new businesses. This is why the Northern Ireland 2008 Budget focussed on those Departments that have a central role in helping the economy.

A key driver of economic growth is the quality of our infrastructure. Northern Ireland needs to have a competitive, efficient infrastructure network, especially in the areas of transport, energy and telecoms.

I'm sure all in this room agree with the imperative of having modern road networks but we should not underestimate the importance of investment in telecoms. The millions invested here by telecom companies in fibre-optic cables have now opened up markets far beyond the North West or indeed Northern Ireland. It offers truly global potential to those businesses that can find a niche to harness that technology.

Let's be clear that the economic future of Northern Ireland resides in being able to compete in global markets – not the small local market of 1.7 million or even the 60 million within these islands. That constrained view on competition isn't sustainable. Northern Ireland companies need to have the ambition, ability, skill and confidence to take on and compete successfully in world markets.

Being able to compete in the global economy however means having to address another set of challenges – environmental issues; energy cost escalation; the growing economic might of China and India; an ageing population; technological innovation; and global political instability – all massive challenges that businesses need to confront. But these challenges already exist. Even the smallest indigenous-focussed firm here is faced with the effects of these external forces.

Our traditional manufacturing base, for example, is already worryingly exposed to production cost competition from emerging markets such as China and India. Scores of local industrial plants have already relocated abroad. And I know that, with a declining textile industry in the North West, you are acutely aware of this phenomenon. The key lesson here is that we simply cannot compete with these countries on production cost terms.

Although it may seem tempting to do so it isn't the job of Government to prop up failing industries or artificially sustain jobs which the market cannot. That's not just because we can't afford to, but because, ultimately, it won't work. History has demonstrated that it is the flexible and open economies that ultimately succeed.

However the Executive does have an important role to fulfil. As I say, not by seeking to run businesses, but by creating the best business environment in which they can prosper. I think the key to success lies in acknowledging the challenges and identifying how business opportunities might be created for us.

This is why we have made growing a dynamic and innovative economy the top priority over the lifetime of the Programme for Government. By focussing on the four key drivers of productivity – skills, infrastructure, innovation and enterprise - productivity growth will drive our economic development.

This is vital if we are to provide the wealth and resources required to build a peaceful, prosperous, fair and healthy society.

To bring this about we have agreed a range of actions that will contribute towards achieving our key economic targets. These include:

- Halving the private sector productivity gap with the UK, excluding the Greater South East; and
- Increasing the employment rate from 70% to 75% by 2020.

I can assure you that we are determined and are working hard to enhance the prospects of Northern Ireland.

But what does this mean specifically for the North West?

A few key statistics highlight the current economic climate in this region.

GVA per head in this northern region was £11,300 in 2005 – over £3,000 below the Northern Ireland average.

Northern Ireland's employment rate of 68.7% is well above the Council rate of 60.5% as well as that of the wider northern region rate of 62.4%.

The claimant count unemployment rate in both the city and the wider northern region, at 4.4% and 3.7% respectively, is also markedly higher than the Northern Ireland average of 2.5%.

Gross earnings in the Council area are just over £400 per week, a little less than the Northern Ireland average, and 5th out of the 26 district councils.

But education and training statistics show the North West in a much more favourable light – 17.3% of persons in this region had no qualifications, whereas the Northern Ireland average was considerably higher at 23.4%.

Furthermore, while 23.4% of Northern Ireland citizens achieved NVQ level 4; this region's equivalent rate was again higher at 27.8%.

So it is clear that this region has underperformed economically and yet there is obviously much potential in terms of skills resources etc to offer.

It is also important to recognise that the North West can exploit its geographical advantage – maximising economic opportunities on both sides of the border. The Executive has already acknowledged the importance of targeting policy interventions in the North West.

The North West Gateway Initiative encourages economic growth in the area and provides a focus for greater synergy and sustained co-operation in the region.

We also now have the Ilex Urban Regeneration Company to stimulate economic and social regeneration in the council area. Ilex draws together varied resources and expertise from both the public and private sectors and leads in building an agreed way forward for the economic, social and physical development of the North West area.

However the local private sector will remain the key catalyst for economic growth and transformation in this area. Encouragingly there are some very positive signs over recent months.

One such example of investing in the region is Firstsource Solutions, whose investment is evidence of the company's confidence in the region. This is one of many companies now convinced of the good business opportunities available here. The real positive for me is that **companies such as Fujitsu, Northbrook Technology, Homeloan Management, and Prumerica are examples of large ICT and financial services businesses making the most of this area's newfound attractiveness for technology. These are the high value sectors that I referred to earlier.**

I believe the decision of these companies to come was driven by the strengths that the region has - the size and quality of labour pool; an excellent location for delivering high-quality, cost-effective technology and business solutions; and the strong partnerships with local players, local universities and colleges.

These types of investments clearly show that the North West is open for business, has the skills to attract these firms, is competitive and able to attract major investment from the knowledge based sector.

Maximising and exploiting these opportunities will deliver highly productive, high paying employment – thus boosting regional GVA.

Seeking to promote economic transformation isn't easy for policy-makers at the best of times, but the current climate of international financial gloom

makes it ever more imperative that we have a clear picture of where the Northern Ireland economy is striving to be in the global market place.

Government intervention in the economy must be handled with great care given the complexity of the issues involved and the dangers of unforeseen consequences. As I have highlighted – the key for the Executive will be to take forward policy interventions that enhance our productivity drivers – that's our skills base, our infrastructure assets, our science capability and entrepreneurial ability.

In concluding I would suggest that this region is undoubtedly well placed to help us exploit these key drivers. Rest assured that I remain determined to prioritise economic growth and transformation within the Executive's agenda. But I can only play a part in achieving this goal. Your continued work in making North West businesses more productive and outward-looking will go a long way towards enhancing Northern Ireland's economic prospects.